Operating expenses in retail jewelery stores in 1920. Operating expenses in the wholesale grocery business in 1920. Bureau of Business Research bulls. no. 27 and 26. (Cambridge, Mass.: Harvard Univ. Press. 1921. Pp. 46; 27. $1. each.)

The preparation and use of financial statements. (Chicago: Manufacturers' Assoc., 76 W. Monroe St. 1921. Pp. 19.)

Wills, estates, and trusts. (New York: Ronald. 1921. $8.)

Capital and Capitalistic Organization

The Financial Policy of Corporations. By Arthur Stone Dewing. I, *Corporate Securities* (pp. 154); II, *Promotion* (pp. 173); III, *The Administration of Income* (pp. 164); IV, *Expansion* (pp. 234); V, *Failure and Reorganization* (pp. 196). Separate index for each volume and a general index covering all five of them. (New York: Ronald Press Company. 1920. $12.00. There is a manual of problems to be used with these volumes, published in 1921.)

Professor Dewing's five-volume contribution to the literature of corporation finance will undoubtedly receive a warm welcome both by academic students and teachers and by practical financiers and other business men. The materials used in the compilation of this work have been carefully handled, well organized, and presented in an interesting language and in a suggestive as well as a descriptive style. The statements of fact in the body of the text are abundantly substantiated by footnote references and the footnotes contain also many concrete instances illustrative of the principles and facts stated in the text. The manual of problems contains material well calculated to facilitate the work of giving thorough instruction.

In volume I—*Corporate Securities*—common and preferred stocks, bonds secured by pledge of specific property, bonds secured by credit, equipment obligations and convertible issues are described and to some extent judged from the investor's point of view. The author seems to consider that the investing public and financial writers have been inclined to overrate bonds secured by pledge of specific property as compared with bonds secured by credit, as debentures. To quote: ". . . a default in the interest or principal of debenture bonds precipitates failure and receivership. In the final reorganization, securities are given a preference according to their relative priorities; and the question whether a security does or does not possess a lien on specific property is more a legal fiction than a matter of practical consideration" (p. 78). Similarly one gets from the discussion of preferred stocks (chap. 6) the impression that these securities are not as desirable for investment purposes as is commonly supposed.

The author proceeds at once to a discussion of the forms of corporate capitalization, with little or no attention, by way of introduction, to the nature, history and legal status of the corporation. In other words, these volumes are not to be considered "elementary" in the sense of "introductory." It is assumed that the reader has acquired either from observation and experience or from reading and lectures, or from both, a foundation body of information regarding the forms of business organization.

At the outset, there is recognized the importance of a clear use of the terms "capital," "capitalization," and "capital stock." The first, according to Professor Dewing, consists of actual property, that is, assets, used in the business. This is a use of the word which accords with the custom of the "street" and with the terminology of some (not all) theoretical economists. But that the author has throughout the work restricted the use of capital to this meaning, that is, of assets, is not clear; for we find (vol. III, p. 96) the expression "interest on capital," meaning fixed charges arising out of bond issues.

"Capitalization," to quote Professor Dewing, "is the sum of the various values by which the proprietary interests of a corporation care to evaluate the actual capital. That portion of the total capitalization of a business which they, the proprietors, claim represents their own personal capital, they call 'capital stock'; that portion which they admit is borrowed from others, they call 'debt'" (p. 5). These words would seem to imply no distinction, so far as capitalization is concerned, between temporary and permanent debt. Capitalization, then, working from the definition of capital already referred to, is equal to the sum of the assets, that is, the "capital." But further on (p. 6) we find the statement that "In a concrete case, it is often difficult to determine the exact amount of capitalization, because much corporate debt represents merely temporary borrowing more or less completely offset by an ever-changing volume of current assets. The idea, however, of capitalization is that it shall represent the capital stock and the permanent or funded debt. It is the total securities or representative values issued by the corporation against its actual property." It seems to the reviewer that either, according to Professor Dewing, current assets are not capital or that in these sentences just quoted there are two (contradictory) definitions of capitalization.

In chap. 3 of vol. III on The Administration of Income, in a discussion of the "cost of borrowed capital," it is clear that the author there thinks of capital as including very temporary investments in the business. For he includes among the forms of payment for borrowed capital discounts given and taken on merchandise sold and bought, interest charges paid to the banks in the form either of interest or of bank

discount, and interest charges paid to the public in the form of note interest. Hence we must conclude that the "idea of capitalization," namely, that "it shall represent the capital stock and the permanent or funded debt" only, is not consistently adhered to, and that there is some looseness in the use of terms. This is regrettable in a work which will probably be widely adopted as a text-book. It creates a difficulty which the forewarned instructor may, of course, overcome.

Volume II, on Promotion, treats of the task of the promoter and the banker in the formation of new enterprises, the general principles underlying the devising of the financial plan are laid down and then applied in turn to the manufacturing, public utility and railroad fields, and the process of marketing the new securities is described.

The Administration of Income (volume III), is of especial interest to the accountant. There is a brief introductory discussion of accounting theory in relation to corporation finance, and then more detailed consideration of the depreciation problem, the management of surplus and reserves, and the distribution of profits. It seems to the reviewer that there is in the chapters relating to reserves—whether for depreciation of fixed assets, for business contingencies, or for the amortization of bond issues—an unfortunate lack of precision in the use of terms. To be specific, Professor Dewing sometimes uses the term "reserve fund" when all that he apparently has in mind is a bookkeeping "allowance" or simply a "reserve," no fund at all in the sense of a group of assets. To quote: "The maintenance of the physical condition of the property is accomplished through direct expenditures for small repairs and regular contributions out of earnings to a reserve fund. . ." (p. 21).[1]

Again, referring to the amortization of the discount on an issue of bonds, the author says regarding the deductions from earnings periodically made to cover this item, "it is not paid to the holders of the bonds but is paid into a reserve fund which will extinguish the bond discount at the time the bonds are due" (p. 39). Here is no fund of assets set aside. How can bookkeeping credits representing earnings be "paid into" anything? On page 64, however, Professor Dewing evidently has in mind in connection with reserves for business contingencies the maintenance of funds of assets, for he says (and properly, so far as corporate policies are concerned) that a railroad carrying its

[1] One might incidentally ask here how a contribution from earnings (which are merely increases of net worth) can restore the physical condition of a deteriorated fixed asset. Is not the situation this, that the deduction from earnings effects a marking down of the specific asset to bring its book value into approximate accord with the facts, and that the capital assets of the whole business are thereby maintained at their original worth, although not in their original form? Other fixed assets may have been purchased or the volume of current assets may have been increased.

own insurance on station property should not invest the "fund" in station property, and that a shipping corporation should not invest its insurance "fund" in any kind of property subject to the marine hazard. In this discussion there is a slight departure from the terminology employed in the two cases first cited. First, there is a discussion of the reserves to be set aside. Next, there is a discussion as to whether the assets of the corporation as they then stand shall be left undisturbed, or whether some of them shall be set aside to constitute a separate fund. Third, there is a (to the reviewer) backward step taken in the use of terms, for the statement is made that "if the insurance reserve funds accumulate in considerable amounts there is always a temptation to use the money for the general purposes of the corporation, where unquestionably it will earn more than in low interest paying readily marketable securities." This is confusing. Is a "reserve fund" a "reserve" or a "fund"? Is it a bookkeeping credit in the nature of an allowance or is it a group of assets? Of course, those already familiar with accounting and with corporation finance can usually determine for themselves the author's meaning in any given instance. But students approaching the subject for the first time, even if they have some knowledge of accounting, are slow to comprehend the separate steps in the procedure of making provision for such matters as the replacement of plant, the guarding against business contingencies, and the amortization of bonded debt.

Would it not be better to make at all times a clear distinction between a fund, meaning assets earmarked for a special purpose, and a mere bookkeeping reserve, an account with a credit balance? Let the word "fund" be used to refer to assets only. Let the word "reserve" be used in the sense of a bookkeeping allowance on the credit side of the ledger. Let the two words not be used together. Or, if it be objected that terminology in the field of banking, for example, has already appropriated the word "reserve" for use in reference to assets (in such phrases as "legal reserves" and "secondary reeserves") let the word reserve be abandoned in dealing with the problems of financial policy here under discussion and the word "allowance" be substituted.

In volume IV—Expansion—there is a descriptive, historical and analytical discussion of modern big business. One thing that renders this discussion interesting is the attempt to make what the author calls the "law of balanced return" (akin to the "principle of diminishing returns" and to the "principle of proportionality") the foundation of the discussion. Industrial consolidations, railroad consolidations, the public utility holding company and the several forms of community of interest receive special attention. With business expansion comes, of course, the need for more capital and the need for more marketings of

securities, and the meeting of these needs is described in the concluding chapters of the volume.

In treating of Failure and Reorganization in volume V, the author goes below the surface in his analysis of the causes of failures and after outlining reorganization procedure in general, makes very special and detailed application of these principles to railroads with somewhat less specialized discussion of industrial reorganizations.

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NEW BOOKS

BALDWIN, D. C. *Capital control in New York.* (Menasha, Wis.: George Banta Co. 1920. Pp. xxiv, 255.)

This was prepared as a thesis for the degree of doctor of philosophy at the University of Pennsylvania. The book represents an intensive summary of the experience of New York. The contents may be summarized in part as follows: Part I, Statutory provisions for the administrative regulation of utility capitalization in New York; Part II, Original companies, with chapters on Amount of capitalization permissible, Ratio of stocks to bonds, Methods of control over the application of proceeds, The commissions and the investor, and The commissions and the courts; Part III, Additional capitalization for existing companies; Part IV, Refunding and reorganization; Part V, Consolidation, mergers and transfers of stock.

GECK, A. *Die Trustabwehrbewegung im deutschen Zigarettengewerbe.* Greifswalder Staatswissenshaftliche Abhandlungen, 5. (Greifswald: L. Bamberg. 1920. Pp. 249. 20 M.)

PARKER, J. S. and SMITH, J. B. R., editors. *The corporation manual.* Twenty-second edition, revised to January 1, 1921. (New York: U. S. Corporation Co. 1921. Pp. xv, 2062. $20.)

PUTNEY, A. H. *Corporations; organization, financing, management.* (Chicago: Lincoln Inst. of Business. 1921. Pp. v, 408. $3.)

SMITH, J. B. R., editor. *New York laws affecting business corporations.* Second edition. (New York: U. S. Corporation Co., 65 Cedar St. 1921. Pp. xxii, 248. $2.)

TSCHIERSCHKY, S. *Zur Reform der Industriekartelle.* (Berlin: Springer. 1921. Pp. 96. 13.20 M.)

Labor and Labor Organizations

The High Cost of Strikes. By MARSHALL OLDS. (New York: G. P. Putnam's Sons. 1921. Pp. xvii, 286. $2.50.)

Although the title indicates that this book is to be a condemnation of strikes the reader does not progress beyond the first few pages before he realizes that the author is cutting a much wider swath and is extending his condemnation to other activities and policies of labor